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SUBJECT: EB A/S SULLIVAN MEETS NORWEGIAN DEPUTY FM
STUBHOLT ON MARGINS OF EITI CONFERENCE

Summary

¶1. (SBU) Assistant Secretary for Economic and Business Affairs Dan Sullivan met October 20 on the margins of the Extractive Industries Transparency Initiative (EITI) Conference with Norwegian Deputy Foreign Minister Liv Monica Stubholt to discuss EITI and a range of international and bilateral issues, including energy investments in Russia, Iran and Iraq and a number of irritants in U.S.-Norwegian commercial relations. They were in agreement on the importance of EITI's goals and principles, with Stubholt calling Norway's offer to host a permanent EITI secretariat a sign of its deep commitment to the process. On energy, Stubholt emphasized that Norway's recent efforts to open Barents petroleum resources to development could contribute to U.S. energy security. Both sides expressed concern about Western petroleum firms' recent troubles in Russia, particularly Gazprom's decision to exclude foreign firms from ownership stakes in the Shtokman field. A/S Sullivan cautioned Stubholt about Norwegian oil companies' investments in Iran but welcomed Norwegian assistance to Iraq's petroleum sector, possibly in connection with the Compact for Iraq.

¶2. (SBU) Turning to bilateral matters, Stubholt appealed for U.S. flexibility on climate change language for the upcoming Arctic Council Ministerial statement. A/S Sullivan raised several bilateral commercial irritants, including weak pharmaceutical patent protections, "blacklisting" U.S. firms from Norway's Government Pension Fund, and discriminatory vehicle taxes, but Stubholt signaled that Norway would give little ground. Wrapping up the meeting, Stubholt reacted positively to A/S Sullivan's request for support for Guatemala's UNSC bid and for U/S Sheeran's

candidacy for a head of the World Food Program.
End Summary.

Strong Agreement on Benefits of EITI

¶3. (SBU) A/S Sullivan and Stubholt agreed on the importance of EITI in enhancing transparency in the energy and mining industries in the developing world. Noting the important role that U.S. and Norwegian petroleum companies played in the energy sectors of many developing nations, they concluded that the United States and Norway shared a common interest in EITI's success. Stubholt stressed that Norway's willingness to host a permanent EITI secretariat in Oslo demonstrated its strong

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commitment to the initiative. (Note and comment:
Germany has also offered to host the EITI
secretariat. Norway, as a leading exporter of

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hydrocarbons and an exemplary model of transparency
in the energy sector, would appear to be the more
logical choice. End note and comment.)

Barents Oil/Gas Could Enhance U.S. Energy Security

¶4. (SBU) Stubholt briefed A/S Sullivan on Norway's efforts to open the petroleum resources of the Barents Sea region to exploration and development. She stressed that developing High North energy resources could contribute to U.S. energy security by offering additional sources of supply, particularly of natural gas, to the U.S. market. A/S Sullivan noted that he had met with Statoil

executives the day before to discuss the company's plans in the Barents and was particularly impressed with the cutting-edge offshore technologies that had made development of remote subsea Arctic resources a reality. (Note: Statoil will begin exporting LNG from the Barents Sea's "Snoehvit" field to Cove Point, Maryland next year. End note.)

Troubled Times for Energy Investors in Russia

¶5. (SBU) Turning to Russia, Stubholt expressed disappointment at reports that Gazprom had decided to exclude Western partners from ownership shares in the vast Shtokman natural gas field. She noted that neither Statoil nor Norsk Hydro, the two Norwegian petroleum companies on Gazprom's short list of potential partners in the project, had heard anything official from Gazprom. She thought the companies would "stay in for the long haul" in Russia in spite of the disappointing news and could perhaps take advantage of opportunities to develop Shtokman on a contractual basis if they could not take an ownership stake. The recent hurdles facing Western oil companies in Sakhalin were an even more troubling development, as Russia seemed to be changing the rules of the game after significant investments had already been made. A/S Sullivan agreed, noting that much work had gone into negotiating a set of energy security principles with Russia for this summer's G-8 Summit in St. Petersburg, but Russia had fallen far short in implementing them.

Caution on Energy Investments in Iran

¶6. (SBU) A/S Sullivan cautioned Stubholt that

Norwegian petroleum firms' investments in Iran raised serious concerns under the Iran-Libya Sanctions Act (ILSA). He noted that Congress had recently renewed that Act in conformity with previously existing principles, but that there had been a concerted, though unsuccessful, effort to strengthen the sanctions. He urged Stubholt to bear ILSA in mind because the issue of investments in Iran had assumed a very high profile in Washington. Stubholt responded that all petroleum companies, Norway's included, were increasingly aware of geopolitical concerns and exercising greater corporate responsibility in making investment decisions.

Hope for Energy Investments in Iraq

¶7. (SBU) A/S Sullivan cited Iraq as another example of a nation where petroleum companies could exercise significant influence. He noted that Kurdistan and the central government had drafted competing petroleum investment laws and cautioned that making investments under regional laws risked encouraging separatist tendencies. Stubholt agreed, stressing the need for governments and petroleum firms to consult closely on investments in Iraq. (Note: A small Norwegian petroleum firm, DNO, has concluded a deal with Kurdish authorities to develop an oil field on northern Kurdistan. So far, the Norwegian majors have held back on investing in Iraq but have participated in Norway's bilateral assistance program for the Iraqi oil sector. End note.)

¶8. (SBU) A/S Sullivan briefed Stubholt on the Compact for Iraq and suggested that Norway could contribute by providing technical assistance to the Iraqi oil sector. Stubholt responded that Norway was following the Compact with interest and a "positive attitude." She noted that Norway had already allocated about 30 million NOK (approximately USD 4.5 million) for bilateral assistance to Iraq's Ministry of Oil, though the program was not moving as quickly as it could.

Appeal for Arctic Council Attention and Compromise

¶9. (SBU) Stubholt urged greater U.S. attention to the Arctic Council, a forum for addressing Arctic issues whose members include the United States, Norway, Finland, Sweden, Denmark, Iceland, Canada and Russia. She requested A/S Sullivan to convey an appeal to appropriate U.S. officials to compromise on climate change language in a draft ministerial statement to be issued in late October.

No Traction on Bilateral Commercial Irritants

¶10. (SBU) A/S Sullivan raised three bilateral commercial concerns -- Norway's weak patent system for pharmaceuticals, the Government Pension Fund's divestment from U.S. firms for allegedly unethical behavior, and new taxes on light trucks that have decimated the market for such U.S. vehicles in Norway. On pharmaceutical patents, Stubholt insisted that Norway was in compliance with its Trade Related Aspects of International Property Rights Agreement commitments and had struck an appropriate balance between patent protections and ensuring reasonable drug prices. She disputed that Norway's weak pharmaceutical patent protections tended to undermine innovation and was adamant that Norway would not change its system to address U.S. concerns. A/S Sullivan reiterated that adequate IPR protections were the "heart and soul" of the

American culture of innovation and urged remedial action.

¶11. (SBU) Regarding the "blacklisting" of U.S firms by the Pension Fund, Stubholt argued that the government's ethical investment guidelines complied with international standards and were administered by an independent commission whose decisions were non-political. She noted U.S. concerns about procedural deficiencies in the guidelines and the preponderance of U.S. firms on the Fund's blacklist, concerns which the Ambassador laid out in a recent speech that received prominent press play. She acknowledged the importance of examining any flaws in the process that might exist and suggested the government might conduct an assessment of the guidelines and consider changes "after an appropriate time."

¶12. (SBU) Stubholt did not respond on the light truck tax issue.

Support for UNSC and WFP Candidates

¶13. (SBU) A/S Sullivan wrapped up the meeting by requesting Norway's support for Guatemala's UN Security Council candidacy and for Under Secretary Sheeran's candidacy for head of the World Food Program. Stubholt responded positively on both counts, noting with respect to the latter that

Norwegian Prime Minister Jens Stoltenberg enjoyed an excellent working relationship with U/S Sheeran.

¶14. (U) Assistant Secretary Sullivan has cleared this cable.

JOHNSON